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SUBJECT: LEBANON: IMF TO ANNOUNCE NEW EPCA FOR LEBANON (ECONOMIC  
WEEK IN REVIEW, SEPTEMBER 29 - OCTOBER 5, 2008)

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IMF TO ANNOUNCE NEW EPCA  
FOR LEBANON NEXT WEEK  
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11. (SBU) The IMF Emergency Post-Conflict Assistance (EPCA) team told us September 30 that the IMF will formally announce a new EPCA program for Lebanon during the Core Group Donors' meeting on the sidelines of the World Bank/IMF Annual meetings October 10-13 in Washington, D.C. The new EPCA program is expected to be approved by the IMF Board in November, according to the team leader, Division Chief for Middle East and Central Asia Domenico Fanizza. Under the new EPCA, Lebanon will receive a \$39 million dollar loan from the IMF -- over and above the \$76.8 million dollar loan granted under the previous EPCA.

12. (SBU) Among the measurable benchmarks being considered under the new EPCA program, Fanizza listed a new electricity tariff structure, the issuance of the Request for Application (RFA) for the sale of the two cellular licenses, the strengthening of internal operations at the Central Bank of Lebanon, improving the institutional set up of the fiscal system, and cabinet endorsement and transmission to parliament of an income tax law.

PUBLIC SECTOR SALARY INCREASES  
DISBURSED BEFORE LEGISLATION PASSED  
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13. (SBU) A senior source at the Finance Ministry told us that the GOL has started paying civil servants advances on salary increases before legislation that authorized the increases is out. On September 9, the cabinet increased the minimum wage and endorsed salary increases in the private and public sectors. Salary increases in the public sector need parliamentary approval, but Finance Minister Chatah authorized their payment prior to Eid al-Fitr.

14. (SBU) Meanwhile, the decree on salary increases in the private sector has still not been published in the official registry. A senior source at the Finance Ministry told us October 3 that the procedure takes time. The cabinet transmitted the decree to the Shura Council (State Consultative Council, whose decisions are binding) for review. If approved by the Shura Council, the decree will then be signed by the Finance and Labor Ministers, PM Siniora, and President Sleiman, and then be published in the Official Gazette.

15. (SBU) Vice President of the Association of Lebanese Industrialists (ALI) Charles Arbid told us October 3 that some private sector companies have started paying salary increases, while others are waiting for the decree to come out officially. All companies probably will apply it when the decree is out, he said. Arbid said that if the Shura Council approves the measure, ALI would consider an official challenge to the cabinet's decision on salary increases (but not the minimum wage) before the Council, because ALI considers it government interference in the private sector. Nonetheless, Arbid said, "this will not be an easy fight to win."

POLITICAL WILL IS PRESENT  
FOR TELECOM PRIVATIZATION  
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16. (SBU) Telecommunications Regulatory Authority (TRA) Chairman Kamal Shehadi told us on September 24 that the political will exists to move forward on the sale of the two cellular licenses, and he is coordinating with Telecommunications Minister Gebran Bassil and the Higher Council for Privatization (HCP) SYG on drafting Request for Application (RFA).

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17. (SBU) The GOL will decide if it wants to ask for proposals based on government revenue sharing (fixed percentage or declining) or not, but Shehadi expects to have an idea about the option to be selected in two to three weeks. So far, nine bidders have expressed interest and Shehadi believes there will be more bidders when the GOL announces a bid deadline. Finally, Shehadi agrees with Bassil that the sale of two mobile licenses should remain a benchmark for disbursement of USG Paris III support.

REFORM IN THE TELECOM SECTOR  
SLOWLY MOVING FORWARD  
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18. (U) Ministry of Telecommunications auctioned 30 "platinum" (i.e., vanity) cellular numbers on October 3, raising USD 2.5 million. This reflects MOT attempts to use transparency in the sale of its services, and prevent rumors about handing these sought after numbers to political proteges. Meanwhile, Telecom Minister Gebran Bassil recently announced that the ministry will reduce the cost of a land line from about USD 133 to USD 33 to sell the excess supply of land lines held by the ministry. This will bring in revenues to the ministry and will reduce subscribers' bills, as calls from land line to land line are up to 70 percent cheaper than using a mobile phone to call a landline.

POLICE GRADUALLY DEALING  
WITH ILLEGAL CABLE PROVIDERS  
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19. (SBU) On September 29, Head of the Cyber Crime and Intellectual Property Unit at the Internal Security Forces (ISF- Police) Major Elie Bitar told us that considerable work is being done to make illegal cable providers pay necessary fees to make their operations legal and respect copyrights. Since they cannot shut them down completely, and following a series of lawsuits from major cable TV operators (including ART, Orbit, Showtime, MBC, and FTV), illegal cable providers are now paying a fee to the respective right holders. According to Bitar, 90 percent of local cable providers are now paying for rights to broadcast from major cable TV operators. The ISF Unit enforces the law by making sure local cable providers are paying their fees and have the necessary equipment for

legal distribution. Regarding counterfeit CDs and DVDs, Bitar said that around 100,000 CDs and DVDs are being confiscated and destroyed every six months.

UNICERAMIC SHUTS DOWN  
OPERATIONS IN LEBANON  
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¶10. (U) Uniceramic, Lebanon's largest ceramic tile-maker, announced that it will shut down operations in the country and lay off its remaining 200 employees. During the past two years, the increase in energy prices, lifting of tariffs by the GOL, and low-cost Egyptian imports caused Uniceramic to accumulate losses of around USD 11 million. President of the Association of Lebanese Industrialists (ALI) Fadi Abboud has been quoted as saying that because ceramics production is an energy-intensive industry, unfair competition originates mainly from Egypt and Qatar -- both of which heavily subsidize the cost of energy -- while defying World Trade Organization (WTO) obligations. Uniceramic will continue operating from an already-established office in Algeria and plans to expand in Qatar.

UNCTAD: FDI UP BY  
3.9 PERCENT IN 2007  
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¶11. (U) According to the UN Conference on Trade and Development (UNCTAD) 2008 World Investment Report, foreign direct investment (FDI) in Lebanon totaled USD 2.85 billion in 2007, or a 3.9 percent increase from 2006. In nominal terms, Lebanon ranked five out of 20 MENA economies surveyed in FDI receipts. FDI flows to Lebanon were equivalent to 11.6 percent of GDP in 2007, the highest within all Arab countries surveyed. UNCTAD placed Lebanon in the category of countries with low FDI potential but high FDI performance, and thus among countries with "above potential" results in terms of attracting FDI.

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